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TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [PGOV](#) [PREL](#) [MO](#) [HK](#) [CH](#)
SUBJECT: MACAU GAMING REVENUES RISE SHARPLY AS LAS VEGAS
SANDS BOOSTS ENGAGEMENT WITH BEIJING OFFICIALS

REF: A. HONG KONG 1362
[1](#)B. HONG KONG 166

Classified By: A/CG Christopher Marut for reasons 1.4 (b) and (d).

[1](#)1. (C) Summary: Gaming revenues in Macau rose sharply in August, as the PRC reportedly loosened visa restrictions on Mainlanders wishing to visit the Special Administrative Region. Las Vegas Sands (LVS) has restarted its outreach efforts directed at senior PRC officials in Beijing, while its primary U.S. competitor in Macau, Wynn Resorts, restricts government relations to Macau officials. The government of Macau's (GOM) new 1.25 percent junket commission cap became effective on September 22. Industry observers and Consulate General gaming interlocutors believe the cap will prove difficult to enforce, due to the junkets' economic and political influence in Macau and the strong incentive for casino operators to increase marginal profits by offering above-market commissions. End summary.

[1](#)2. (C) Comment: The strategies of LVS and Wynn to deal with their challenges in Macau tell a story of differing American approaches to the Chinese market. During conversations with Consulate General officials this year, LVS executives criticized GOM actions and policies related to foreign labor visas, gaming oversight and regulation, infrastructure development, and perceived interference in personnel management decisions affecting Macau resident workers (refs A and B). The company believes discussions with PRC officials will likely prove more fruitful than its talks with Macau officials, especially with regard to fostering increased visitor flows from the Mainland to Macau. But direct engagement with the PRC risks the opprobrium of GOM officials who control key elements of the company's operations in Macau. These include visa approvals for foreign workers, construction permits, operating licenses, and gaming oversight and enforcement. In contrast, Wynn eschews direct engagement with Beijing in part because Wynn focuses on VIP players who are less affected by PRC visa restrictions, but also because Wynn wants to avoid "going over the head" of the GOM. As a free-rider on LVS's outreach program in Beijing, Wynn stands to benefit modestly from potential LVS successes, while remaining largely immune from the possibility of GOM retaliation. End comment.

PRC Loosens Visa Restrictions, Gaming Revenues Rise

[1](#)3. (C) According to our Macau gaming interlocutors, beginning in late July 2009 the PRC loosened the visa restrictions it imposed the previous year on Mainland visitors wishing to visit Macau. Wynn Macau Executive Vice President of Operations JD Clayton told us visitors from some Guangdong cities are now allowed to visit Macau twice per month, compared with the previous limit of once every two months.

This contributed to Macau's gaming revenue increase of 17.2 percent year-over-year in August. The record single month total of USD 1.4 billion (MOP 11.3 billion) in August exceeded the previous month by 17.8 percent. In addition to the looser visa policy, some Hong Kong-based industry analysts linked the gaming revenue upturn to a surge in lending by Mainland banks, related to the PRC's economic stimulus package. Visitation to Macau has remained strong, and industry observers expect gaming revenues in the month of September to increase by over 50 percent compared with the prior year period.

LVS and Wynn Differ on Approaches Toward Beijing

14. (C) LVS Macau President and CEO Steve Jacobs told EP Chief on September 17 that LVS restarted its government outreach efforts in Beijing over the past several months, and achieved "great success" in building direct relationships with senior officials. Jacobs said LVS's direct engagement in Beijing is designed to build goodwill, explain the company's current and planned contributions to Macau's economy and society, and encourage freer movement of PRC residents into Macau. LVS CEO and majority shareholder Sheldon Adelson highly values direct engagement in Beijing, according to Jacobs, especially given the impact of Beijing's visa policies on the company's growing mass market operations in Macau.

15. (C) LVS's pre-Olympic outreach efforts were suspended in early 2009, after the PRC forced the company to close its newly established non-profit Adelson Center for U.S.-China Enterprise in Beijing. The PRC's State Administration of

HONG KONG 00001819 002 OF 002

Foreign Exchange in China, according to LVS's latest quarterly report published in August 2009, "made inquiries and requested and obtained documents relating to certain payments made by the company's wholly foreign-owned enterprises to counterparties and other vendors in China." A former LVS senior executive told Econoff that the PRC inquiries relate primarily to funds transfer mechanisms used by LVS to establish the now-closed USD 100 million Adelson Center. LVS's current efforts in Beijing are designed in part to offset these early "missteps."

16. (C) Wynn's Clayton told EP Chief on September 17 that his company does not seek direct engagement with PRC officials in Beijing. He said he thought it was a mistake to go to Beijing knocking on doors, and disrespectful to Macau's government to go above their heads. He added that Wynn operated in Macau, and that was the government they dealt with. Clayton noted that Wynn CEO and majority shareholder Steve Wynn arranges to meet privately with Macau's chief executive during each of his quarterly visits to Macau.

17. (C) MGM Macau President Grant Bowie said his firm neither initiates nor avoids direct involvement with the PRC. However, MGM's 50 percent joint venture partner Pansy Ho (daughter of Macau casino magnate Stanley Ho) was called to Beijing "several times" in 2009 to advise the Beijing government about developments in Macau, including GOM plans and efforts to diversify Macau's economy away from gaming. Pansy Ho's brother Lawrence is CEO of Macau's third-largest gaming concessionaire, publicly traded holding company Melco-Crown. Our interlocutors in Macau say Lawrence's engagement with the PRC has been limited, but this may change due to his father's ongoing hospitalization since early August, reportedly due to a severe brain-related illness. Stanley Ho is a Standing Committee member of the Chinese People's Political Consultative Conference.

GOM Announces Junket Commission Cap

18. (U) VIP gamblers in Macau (i.e., those betting more than USD 400 per hand) typically come to Macau with the assistance

of a junket operator who makes travel arrangements, provides credit and facilitates access to VIP gaming rooms. These VIPs play baccarat almost exclusively. VIP baccarat accounted for 65 percent of total gaming revenues in Macau during the first six months of 2009. The GOM announced that, effective September 22, the commissions the junkets receive from casinos for bringing in VIP clients will be capped at 1.25 percent of VIP gambling chip sales. The GOM said casinos have until October 1 to amend their contracts with junket operators. The commission cap is designed to limit the upward trend in payments to junket operators who increasingly "shopped" their VIP players to Macau's six gaming concessionaires. Even capped at 1.25 percent, payments to junket operators exceed 40 percent of the casinos' VIP baccarat winnings. GOM taxes take another 39 percent. Macau's gaming concessionaires seek to bypass junket commission payments by sourcing their own Mainland Chinese VIP players, but such efforts are risky. VIP players frequently gamble using credit, and gaming debts are not legally enforceable in the PRC.

19. (C) Gaming Inspection and Coordination Bureau (known by its Portuguese acronym "DICJ") Director Manuel Neves told Econoff on September 18 that the DICJ will issue details "within a week" specifying the types of junket reimbursements to be included in the 1.25 percent payment cap. Industry observers believe the commission cap will likely prove difficult to enforce. LVS's Jacobs told us the cap "will be routinely violated." He cited several reasons for this: the junket operators maintain significant economic and political influence in Macau; the temptation for some casinos to ignore the cap in order to boost marginal earnings will prove irresistible; and the GOM's implementation and enforcement mechanisms require further development.

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